

As I have said here so many different times—and Senator LIEBERMAN and Senator FEINSTEIN, the chairman of the Intelligence Committee are on the floor—the record is here. We have told everybody for months and months that something is going to happen. And we have laid the groundwork, I am sorry to say, to blame you guys for not doing something to take care of this issue. It is a big issue and it is an important issue for our country. This should have nothing to do with partisan politics. And why the Chamber of Commerce is doing what they are doing is beyond my ability to comprehend.

I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. GRASSLEY. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

DOD INSPECTOR GENERAL OVERSIGHT FAILURE

Mr. GRASSLEY. Mr. President, I am getting the runaround from the inspector general at the Department of Defense, and my remarks, which are fairly lengthy, will be connected with that problem I am having. With sequestration looming on the horizon, Congress needs a truly independent Department of Defense audit oversight capability. We need it to root out waste.

As my friend from Oklahoma, Senator COBURN, knows all too well, rooting out Department of Defense waste is no easy task. His new report identifies some excellent examples of waste ready for removal. I commend Senator COBURN for his outstanding work and stand ready to help him.

But to successfully root out waste day in and day out, there must be a topnotch audit quality and capability in the hands of an inspector general who is ready and willing to use it effectively.

I am reluctant to say this, but it needs to be said. I fear, and I suspect, that the independence of the inspector general's audit capability may have been compromised. I say this because of the story I am about to tell. This story is about a difficult audit, where the inspector general apparently got a bad case of weak knees and caved under pressure. The inspector general dropped the ball on an audit that should be a critical component in Secretary Panetta's good-faith effort to bring the Defense Department into compliance with the Chief Financial Officers Act.

Today, the Department of Defense is the only Federal agency that cannot pass the test. So Secretary Panetta turned up the pressure. He wants to move the audit readiness date up to no more than 3 years from the congressionally mandated date of 2017 to 2014. This is a daunting task, which I spoke

about here on the floor almost 12 months ago now, on December 11 of last year. I say it is a daunting task because there is a big pothole in the road the Secretary faces that he may not know about, hence the reason I am speaking.

The kingpin of this initiative—the Department's flagship accounting agency known as the Defense Finance and Accounting Service—may not be ready to produce credible financial statements. It claims to have earned a clean opinion. Yet when its financial statements were put under the inspector general's microscope, they were found to be very lacking. They did not meet the prescribed audit standards.

To make matters worse—far worse—all the evidence suggests the inspector general may have quashed this negative audit report, allowing the charade to continue unchecked. This oversight failure could leave a gaping hole in Secretary Panetta's master plan.

Except for the Corps of Engineers, the Defense Finance and Accounting Service handles all the Department's financial transactions. It should be the foundation of Secretary Panetta's initiative. It was created over 20 years ago to clean up the Department's financial mess. It should be exerting leadership in this arena and showing the rest of the Department how to balance the books. Its audit needs to be as clean as a whistle. If the Department's central accounting agency can't earn a clean opinion, then who can earn a clean opinion?

Today the central accounting agency's claim of a clean opinion may be hollow. The inspector general, who is responsible for making those judgments, rejected that opinion. The inspector general reviewed it and concluded that it did not pass muster. Unfortunately, the inspector general dropped the ball and quit before the job was done.

The inspector general's report, known as a nonendorsement report, was finalized but never signed and issued. It was simply buried in some deep hole and covered with dirt. Were it not for whistleblowers who are in touch with my office, we might think the Defense Finance and Accounting Service's statements were somehow squeaky clean. I now have the nonendorsement report and other relevant audit workpapers, and they tell a very different story.

The financial statements produced by smaller organizations, such as the Defense Finance and Accounting Service, are audited by certified public accounting firms. But this is always done under the watchful eye of the inspector general. In the end, the inspector general must validate those opinions produced by a CPA firm.

The firm Urbach Kahn and Werlin, UKW, examined the defense accounting agency's statements. It awarded an unqualified opinion or passing grade. The inspector general, by comparison, reached a different opinion. It con-

cluded that those statements did not meet standards. The inspector general announced that it would issue a nonendorsement report, but that report was never issued.

That is why this Senator is here on the floor today. What happened to the nonendorsement report? All the evidence appears to indicate that the inspector general may have quashed the nonendorsement report. That assessment is based on a continuing review of all the pertinent documents. I would like to briefly review those facts so my colleagues can understand where I am coming from.

Seven red flags have popped up on my radar screen.

Red flag No. 1. The contract, which governed the audits in question, is a good place to start because it sets the stage for what followed. The contract was supposed to put the inspector general in the driver's seat. Section 3 of the contract clearly specifies that "all deliverables are subject to final Department of Defense Inspector General approval." The opinion prepared by the public accounting firm was the main deliverable. Two members of the inspector general's audit team were designated as contracting officer representatives. They had exclusive authority to determine whether that opinion met audit standards and deserved endorsement and to approve invoices for payment. Unfortunately, as I will explain, none of the parties involved showed much respect for this contract. In fact, when the crunch came, they trashed it.

Red flag No. 2. The inspector general's decision memorandum and final version of the nonendorsement letter, both dated February 16, 2010, contain compelling evidence. The evidence points in just one direction: There was a lack of credible audit evidence to justify a clean opinion. Both the inspector general's audit team and its Quantitative Methods and Analysis Division reported major deficiencies in the CPA firm's work. Once the inspector general determined that the CPA's audit opinion did not meet prescribed standards, the inspector general's representative prepared a nonendorsement letter and instructed that payments on outstanding invoices be stopped. Those decisions precipitated a classic bureaucratic impasse.

Red flag No. 3. The impasse came to a head at the Defense Finance and Accounting Service's audit committee meeting held on January 27, 2010, where three options were considered: first option, the IG would issue a nonendorsement letter; second option, the CPA firm would do more work on accounts payable and undelivered orders issued; and third option, the IG would do additional work. Just 1 day later, January 28, a senior official from the Inspector General's Office, Ms. Patty Marsh, announced the results of the meeting. Ms. Marsh reported that a consensus was reached: No additional work would be performed. She then declared that the

Inspector General's Office would issue a nonendorsement letter.

Red flag No. 4. The Defense Finance and Accounting Service immediately implemented a series of measures that appeared to bypass and eliminate oversight by the inspector general.

In what appeared to be overt defiance of the inspector general's decision, the accounting agency's Director of Resource Management, Elaine Kingston, in a letter to the accounting firm, unilaterally declared that her agency had "proudly achieved an unqualified opinion." Kingston's letter was dated February 19. At that point, this opinion had been explicitly and unambiguously rejected by the inspector general, and Kingston knew it. She also authorized that all disputed invoices be paid. The invoices authorized for payment by Ms. Kingston were the very same ones previously rejected by the inspector general's contract officer representative. Their rejection was based on advice from the inspector general's legal counsel. Kingston's actions showed blatant disregard for the contract and authorized payments alleged to be fraudulent.

Then, on April 15, the central accounting agency's contract officer, Normand Gomolak, effectively eliminated independent oversight by the inspector general. He issued a letter terminating the two inspector general contract officer representatives. A known flaw in the contract allowed this to happen. Gomolak's termination order was retroactive to January 27, 2010—the very same day the inspector general revealed its intention to issue the nonendorsement letter. It is as if Mr. Gomolak had superhuman powers and could reach back in time and wipe the nonendorsement report clean off the slate, like it never really happened. As one witness put it, "DFAS virtually kicked us—the Inspector General—out of the contract, and without so much as a whimper from the duly designated junkyard dog."

Red flag No. 5. Under the circumstances, the stop-work order blessed by the audit committee was not surprising. That it would be accepted and tolerated by the inspector general is astonishing indeed. The consensus reached was between the three main targets of the audit: the accounting agency, the CPA firm, and the chief financial officer, who supervises the central accounting agency—such a consensus, as it was. All appeared to share one common goal: Just simply stop the audit. That is a predictable response from audit targets, especially if there is something to hide.

The inspector general's initial response was appropriate. The Inspector General's Office expressed a willingness to do more work, and when it became evident that was not a viable option, it declared that a nonendorsement letter would be issued. Of course, those were good moves. Unfortunately, however, the Inspector General's Office quickly began to backpedal and to align itself

with the stop-the-audit coalition. First, it issued a stop-work order to the audit team. That occurred February 4. Then on April 13 the IG informed the accounting agency by telephone that the nonendorsement report would not be issued. This was, of course, a bolt out of the blue.

Red flag No. 6. In a letter to me dated May 26, the Inspector General's Office attempted to provide a plausible explanation for why this report never saw the light of day. First, the letter suggested that a formal nonendorsement report was unnecessary because the Inspector General's Office had already informed the audit committee of its decision to nonendorse the opinion. Is the inspector general implying that Ms. Marsh's verbal nonendorsement announcement constituted *de facto* or unofficial nonendorsement? If that is indeed the case, then how come the central accounting agency still pretends to have earned a clean bill of health? There is something wrong with this reasoning. Failing to issue the nonendorsement report left the opinion under a dark cloud, where it remains today.

In addition, the inspector general also suggested that doing a mere 2 to 3 weeks of additional work to finalize the nonendorsement letter would not have constituted a "good use of audit resources"—that is, it would have been a waste of money. The need for 2 to 3 weeks of extra work appears to be a real stretch. I have the nonendorsement letter. It was finished. All it lacks is Ms. Marsh's signature.

More importantly, however, the Inspector General's Office does not seem to understand either the purpose or the importance of this audit oversight project. For starters, I recommend the inspector general check section 7 of the contract. It states:

The DoD OIG will perform oversight of the Contractor's work to support the decision about whether to endorse the Contractor's opinion report.

That was the stated purpose of this costly audit project—to make a decision on endorsement. From day one, however, this was a significant effort to resolve a difficult and sensitive question: Did the Defense Finance and Accounting Service deserve a clean opinion—yes or no? Since the focus of this audit was the kingpin of Secretary Panetta's initiative in the first place, well, that makes this work inherently important.

Red flag No. 7 and the last red flag. One of my main concerns about this entire matter is that it appears to point to a failure of oversight. So I ask this question: Did the Inspector General's Office cave under pressure and surrender its oversight responsibilities? By accepting and tolerating the central accounting agency's actions, the Office of the Inspector General appears to have allowed a Defense Department entity to effectively block its ability to perform one of its core missions; that is, auditing the books of a

key defense agency. If true, this would be a cardinal sin for the inspector general.

The central accounting agency allegedly violated the terms of the contract. It allegedly made fraudulent payments, and it unilaterally terminated oversight. Yet, in the face of such blatant defiance, the Inspector General's Office turned a blind eye to this challenge.

So you have to ask the question, Why did the IG just roll over? Why did the IG fail to assert its independent audit authority? Stopping work at this critical juncture does not appear to have been a responsible oversight option. Why did top management fail to allow the oversight team to finish its work and render a decision on the opinion? Why quit when it was on the very edge of issuing a nonendorsement report on the flawed opinion? Was that report quashed to spare the chief financial officer another black eye for the unending accounting screwups or did the IG drop the ball because everyone involved knew these financial statements were in such bad shape they could never pass the test?

While we may never know the reasons for what happened, I feel certain about one thing. On this audit, effective oversight collapsed. Congress and the citizens of this country need some answers, but one is paramount: Did the Defense Finance and Accounting Service earn a clean opinion? A simple yes or no. As the drive to audit readiness begins in earnest, and that is under Secretary Panetta's leadership, the Secretary and the Congress need a straight answer right upfront. Leaving it in limbo is unacceptable.

In closing, I would like to emphasize one point. My inquiry is about some very important principles. True, the preparation of these financial statements and all the attendant audit work probably costs the taxpayers somewhere between \$10 and \$20 million. To the average American, those are big bucks. Since the audit came to nothing, waste surely occurred. Any waste, whatever it is, is unacceptable.

But putting important principles at risk was as egregious as the dollar waste. What I am talking about are ethical standards, audit standards, and the integrity of the audit process. Those standards must be protected at all cost. That is one of the inspector general's jobs, to watchdog and follow those guiding principles.

The record appears to show that these standards got trampled and this may have happened with the IG's knowledge and approval. That is what the evidence appears to suggest so far. If the integrity and the credibility of that process were undermined, then the effectiveness of one of our primary oversight weapons would be gravely impaired. When and if those lines are crossed, the inspector general and anyone else involved would be treading on dangerous territory. If such transgressions occurred, then there must be corrective action and accountability.

When I complete this oversight investigation, I will submit a final report to Secretary of Defense Panetta. It will contain findings and recommendations for the Secretary's consideration. To facilitate this process, I ask Deputy Inspector General Halbrooks to answer all my outstanding questions promptly. In other words, I am getting tired of being jerked around.

I yield the floor. I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. REID. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

MORNING BUSINESS

Mr. REID. Mr. President, I ask unanimous consent that the Senate proceed to a period of morning business with Senators allowed to speak for up to 10 minutes each.

The PRESIDING OFFICER. Without objection, it is so ordered.

REMEMBERING SAMUEL WILSON THOMAS

Mr. MCCONNELL. Mr. President, today I wish to pay tribute to a respected historian of my hometown of Louisville, KY, who has sadly passed away. Samuel Wilson Thomas died on Thursday, October 4, of this year, at his home at the age of 74.

Louisville is a wonderful city, and I am always pleased to sing its praises. This is much easier to do thanks to the work of Mr. Thomas. He wrote 18 books touching on every corner of Louisville history, from the famous Churchill Downs to the legendary Cave Hill Cemetery, from Oxmoor Farm to Crescent Hill.

Sam Thomas received his bachelor's degree and Ph.D. from the University of Louisville. He is best known for serving as the first director and curator of Locust Grove, a National Historic Landmark that was the home to George Rogers Clark, the founder of Louisville. Locust Grove also hosted three U.S. Presidents—Monroe, Jackson, and Taylor—and was a stopping point for famed explorers Meriwether Lewis and William Clark upon their return from their expedition to the Pacific.

The log cabin at Locust Grove was Sam Thomas's home for two decades. In his role as director and curator, he oversaw Locust Grove's restoration with careful attention paid to the preservation of its history.

Mr. Thomas also taught at the University of Louisville, edited numerous local publications, and published a host of articles. His role in preserving the history of Louisville and the legacy of its famous inhabitants was tremendous and will not be forgotten.

I know my colleagues join me in expressing gratitude for Sam Thomas's body of work and in extending sympathies to his family, including his wife, Debbie; his brother and sister-in-law, Jim and Susanna; his niece, Sheena McGuffey; his nephews, Ian Thomas, Mason Thomas, and Cas McGuffey; and many other beloved friends and family members.

Mr. President, I ask unanimous consent that an obituary for Mr. Samuel Wilson Thomas printed in the Louisville Courier-Journal be printed in the RECORD.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

[From the Louisville Courier-Journal, Oct. 6, 2012]

SAMUEL WILSON THOMAS, 74, DIED THURSDAY, OCTOBER 4, 2012, AT HIS HOME

Born on January 21, 1938, in Chestnut Hill, Penn., Sam moved to Louisville shortly after his graduation from Chestnut Hill Academy. He received his B.A. (1960) and Ph.D. (1964) in chemistry from the University of Louisville.

Although Sam taught for a short time at UofL, his life and career were forever changed when he began his long association with Locust Grove, overseeing its restoration and serving as its first director and curator. The log house there was his home for nearly two decades.

Sam is the author of 18 seminal books on Kentucky topics, all meticulously researched and primarily focused on Louisville: its neighborhoods, landmarks, and corporations.

His most recent work includes histories of St. Matthews, Anchorage, the Cherokee Triangle, Crescent Hill, Oxmoor Farm, Cave Hill Cemetery, and Churchill Downs, but the project closest to his heart was an overview of early Louisville architecture.

He edited numerous publications for the Courier-Journal's book division and published many articles on a host of Kentucky subjects. He also co-authored with his brother Jim "The Simple Spirit," a pictorial history of Shaker Village of Pleasant Hill.

He was also involved in the restoration of the Jefferson County Courthouse, the Ferguson Mansion headquarters of The Filson Historical Society, and the 1785 log house at Oxmoor. He was a founder of Preservation Alliance and the George Rogers Clark Press, a member of the Louisville Landmarks and Preservation Districts Commission, and archivist of Jefferson County.

Sam is survived by his wife, Debbie; brother, Jim (Susanna); niece, Sheena McGuffey; and nephews, Ian Thomas, Mason Thomas and Cas McGuffey.

Sam chose cremation and requested that no funeral or memorial service be held. The family will receive friends from 4 to 7 p.m. Monday, October 8, 2012, in the Audubon Room at Locust Grove, 561 Blankenbaker Lane.

Memorial gifts may be directed to Locust Grove or to the University of Louisville Photographic Archives, to which Sam gave his collection of photographs and research materials.

TRIBUTE TO JOE LILES

Mr. MCCONNELL. Mr. President, I stand before you today to pay tribute to a man who has spent a significant amount of his life working for the Kentucky Rural Water Association and the

National Rural Water Association. Mr. Joe Liles helped in founding the Kentucky Rural Water Association in 1979. He has also been an employee of the National Rural Water Association since 1999, when he was first elected to the Board of Directors.

He has progressed through numerous positions within the association, and as of September 2010, Mr. Liles has been President of the National Rural Water Association.

I would like to congratulate Mr. Liles on his achievements. I would also like to acknowledge the Kentucky Rural Water Association Leadership Award that Mr. Liles was given in 2008. He was presented this prestigious award based on his exemplary service, leadership, and commitment to Kentucky's water and wastewater utilities. Most recently, Mr. Liles received the 2012 Man of the Year Award from the National Rural Water Association.

After 38 years of dedication to the water systems of Warren, Butler, and Simpson counties, Mr. Liles retired in 2005 from his managerial position. However, he currently serves as the utilities' community and government relations assistant.

Mr. Joe Liles resides in Bowling Green, KY, with his wife, Sally, and his four daughters. He is a grandfather to six. Liles earned his bachelor's degree with an area of concentration in management from Western Kentucky University.

Mr. Liles has shown tremendous loyalty, devotion, and consideration, not only to his job and career, but also to the Bluegrass State. I appreciate all that Mr. Liles has done for the Commonwealth of Kentucky.

Mr. President, the National Rural Water Association recently published an article about the accomplishments of Mr. Joe Liles, and I would ask unanimous consent that the article be printed in the RECORD.

There being no objection, the article was ordered to be printed as follows:

[From the National Rural Water Association Newsletter, Oct. 23, 2012]

The National Rural Water Association recently honored Joe Liles as the 2012 Man of the Year. A long-standing leader in rural water, Liles was honored during the Tribute to Excellence awards ceremony, held on Sept. 24th in Nashville, Tenn. Joe Liles, outgoing NRWA president and founding member of the Kentucky Rural Water Association board of directors, has served in numerous positions on the boards for both Kentucky Rural Water and NRWA.

The Man of the Year Award is a prestigious award that recognizes individuals for their many years of exemplary service, leadership, and commitment to our nation's water and wastewater utilities. Although Mr. Liles retired as manager of the Warren, Butler and Simpson counties water systems in 2005 after 38 years, he currently serves as the utilities' community and government relations assistant.

Kentucky Rural Water congratulates Joe on this esteemed honor!

JUDICIAL NOMINATIONS

Mr. LEAHY. Mr. President, now that the elections are over, I renew my call